Full Length Research Paper

Analyzing the causes and evolution of loan delinquency/arrears within microfinance institutions: A critical path of action

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This paper investigates the impact of External Factors (EF) on the Loan Delinquency (LD) of Microfinance Institutions (MFIs). Drawing upon a field level survey developed in line with Likert scale (5) and conducted in 2014-2015 to 416 respondents in 78 MFIs located in seven different regions of Cameroon, the paper examines if external variables such as Legislative Issues (LI), Economic Contagion (EC) and Economic Down Turn (EDT) are root causes of loan Delinquency in MFIs. While acknowledging other contributing factors to LD such as late disbursements, poor timing, high interest rate, poor training to staff/beneficiaries, management inefficiency, etc. Multiple regression analysis was used to establish relationship between LD and the identified external factors. The regression results obtained indicates Legislative Issue is the core external cause of Microfinance Institutions Loan Delinquency. Contagion Effect and Economic Downturn were identified to be statistically insignificant. Therefore, we conclude that in addition to profit motive (internal cause), LI as an external factor contribute significantly to the alarming rate of Loan Delinquency in Microfinance institutions. To overcome this challenge requires a collective effort both from the regulatory authorities, the government, the banking commission and above all the general assembly of these institutions. The paper finally contends that major stakeholders in our sampled institutions have failed in their roles to strengthened MFIs sufficiently to cope with rising challenges in the market. The paper considers delinquency management as a gauge not only for MFIs sustainability but as a means to boost deteriorating customers’ confidence.

Key words: Microfinance, MFIs, loan delinquency, legislative issues, economic down turn, contagion effect, Cameroon.

INTRODUCTION

News on financial scandals in developed economies is mainly associated with stock market activities, issues related to mergers/acquisitions and other macro-economic issues. This is due to the well-established and pivotal role the stock market in this market plays in channeling funds from different areas for investment purposes. With limited or no stock market access in most developing economies, the situation is different.

In Cameroon for example, Micro Financial Institutions (MFIs) dominate the financial sector and news of MFIs closure or having liquidity problems make prominent headlines in most newspapers and television channels. Institutions that were created under the premise of poverty alleviation are becoming tools to get the poor trapped in poverty. Microfinance has been exploited and will continue to be exploited by major stakeholders in the microfinance value chain who preach the same doctrine; that of poverty alleviation (Fotabong, 2011).

Before the emergence of microfinance institutions, most poor people could not benefit from commercial bank loans as they were not able to fulfill collateral or security requirements. Sometimes lack of credit history and credit worthiness was regarded as the main problem for not sanctioning loans to the poor. Consequently, these
people who could not obtain loans from commercial banks became prey at the mercy of money lenders. Money lenders charge higher interest rates and their loans are granted on complicated conditions. The above mentioned reasons paved the way for microfinance initiatives as a desirable alternative source for poor people to borrow money on favorable terms (Fotabong and Akanga, 2005; Dieckmann, 2007).

But the hypothetical question remains, what have changed? In Cameroon, while applause should be granted to institutions like the community bank network (MC2), the credit union network of CAMCCUL and the Credit Communautaire D’Afrique (CCA), news of the creation of new MFI and closure of existing MFIs are very common. As a result, most citizens view MFIs as “chameleon” institutions while others have been fast to classify MFIs as “sunrise and sunset” institutions which means, they go operational at sunrise and at sunset they do not exist. This alone has weakened customers faith and confidence in these institutions although MFIs remain the main source of financial services for a large group of the country’s population.

The identified fundamental issue that frequently results to instability and further to the collapse of MFI, is illiquidity caused mostly by loan delinquency. Loan delinquency is a canker worm that is and continues to be a nightmare in the microfinance sector in Cameroon. Reducing loan delinquency is crucial for a microfinance institution’s survival. In most MFIs, loan delinquency is a continual problem. When left unsolved, delinquency becomes the institutions’ nightmare. A loan is delinquent if installments are delayed and in default if one or more installments are never repaid (Fotabong, 2011). A proper analyses and alerts of pertinent delinquency ratios could serve as an appropriate dashboard for institutions to put things under control. In this vein, setting up a meaningful delinquency monitoring is a crucial diagnostic tool.

Delinquency management remains not only a gauge for MFIs to remain focus but also a way to build members and customers confidence. Delinquency management helps protect and safeguard members and customers deposits, limit portfolio at risk, annual loan losses and prevent future delinquency. Delinquency, which can lead to default, is probably the largest single downfall of MFIs. Even in financial institutions operating quite successfully, the specter of delinquency and default must be continually addressed.

Problem statement and research questions

Numerous studies conducted on microfinance loan delinquency particularly those conducted in Africa, have laid emphasis on the internal structure and conditions. Bichanga and Aseyo (2013) investigated the causes of loan delinquency in the Trans Nzoia region. He focused on two factors that caused MFIs adverse situation: the issue of non-supervised loans and economic down turn. Huka and Nguta (2013) shifted attention and focused investigation on the causes of loan delinquency to type of business, age of business, number of employees and profit motive. These researchers found a significant relationship between the above mentioned variables and loan default rate.

In Ghana, Korankye (2014) equally investigated the causes of loan default rate in MFIs and found that high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring and improper client selection were major causes of loan delinquency. Researching on this same subject, Kalui and Mania (2014) postulated on three key variables. According to the researchers, credit policies, loan recovery procedures, and the loan appraisal process contributed significantly to loan delinquency. Other literature pertaining to the causes of loan delinquency such as the work of Warue (2012), opened a new paradigm where the researcher singly split the causes of loan delinquency into internal and external economic environment factors. She found out that, there is a positive relationship between loan delinquency and firm’s specific factors, self-group factors and external factors.

The above researchers in their studies all used descriptive statistics (percentages, means, median, mode, ANOVA), correlation in search for the causality relationship. In addition to the above approaches, Warue (2012) singled out her study and implemented a more scientific statistical approach of multiple regression analysis. Using this method, the researcher obtained statistically the beta coefficient of each testable variable and found they were all positively related to the dependent variable (loan delinquency).

After a review of previous research on this subject and a facial synopsis of Cameroon microfinance landscape, we realized this study can be the best approach from the perspective of Warue (2012). However, by associating the methodologies with that of Warue (2012), the studies are not exactly same. Some major factors of our research investigated in the case of Cameroon were not identified as problems in the case of Kenya. We equally split major causes of loan delinquency into internal/micro (institution specific factors), external/macro factors and natural factors.

The firm’s specific factors include loan appraisal process, Credit policies, agency issue and profit motive, the external factors are legislation issue, contagion effect, economic downturn and the natural factors which include weather and natural disaster, poor health of borrower, and death of borrower. Two of these external vaibales legislation issue and contagion effect were not studied by Warue (2012). In addition, our research is different as we state the loan delinquency situation for the year under review. This year is unique as many MFIs in Cameroon were facing liquidity problems. Many MFIs closed their doors during this period with official statistics putting average MFI loan delinquency at 15.8% (COBAC, 2009).
More than 90% of existing research and literature on the causes of loan delinquency have focus on MFIs specific factors. Previous research on this area are more tilled to internal variables and how these internal variables influence default rate in MFIs (Korankye, 2014; Huta and Nguata, 2013; Nawai and Shariff, 2012). Most of these researchers were fast to lay blames of default problems to management inability or management mismanagement or customers’ oriented issues. Although, we are investigating the same subject, this research opens another paradigm in the context of Cameroon. Thus, in this study, attention is shifted from this general perspective. Internal factors are but symptoms of the root causes. In this vein, we investigate how external factors influence loan delinquency within MFIs in Cameroon.

Without excluding the significant role of internal factors (I.F) and natural factors (N.F) as investigated by the above mentioned scholars, our empirical investigation is centered on external factors (E.F). The paper looks at how external factors influence loan delinquency within the MF sector in Cameroon. The call for this investigation is as above mentioned “ease to start and ease to close” nature of these institutions in Cameroon over the last decade. Again with valuable practical and consulting experience in the sector, it is worth contributing to improve the welfare of Cameroonians. While solution to this problem remain collective, we however strongly believe the external institutional framework backed by the government rather than firms is in a better position to engineer this process and develop solutions to this canker worm.

This postulation cannot just be accepted except it is statistically tested, opinion drawn and proven correct such that a scientific body of knowledge is developed. With this in mind, our main objective and research question respectively are:

1. To investigate the role of external factors (Legislation issue, contagion, and economic down turn) in influencing MFIs loan delinquency rate in Cameroon.
2. Do external factors have significant contribution to the rate of loan delinquency in the MF sector?

At the end of the study we provide both micro solution (based on firm’s specific studied factors as per scholarly reviewed articles) and macro solution mostly from the external side of our empirical investigation. This implies, the focus of this paper is an empirical investigation on how external factors contribute to loan delinquency within MFIs in Cameroon. The paper also examined the delinquency situation of these institutions for the year under review.

Empirical literature and theoretical framework

Existing literature on the causes of loan delinquency within MFIs focused on internal factors. These literatures examine the impacts of internal factors on MFIs loan delinquency (Bichanga and Aseyo, 2013; Nguta and Huka, 2013; Korankye, 2014; Warue, 2012; Kalui and Maina, 2014). Much work has been done theorizing to show how internal factors, and processes within MFIs affect loan delinquency. Most of these researchers were fast to lay blames of default problems to management inability or management mismanagement or customers’ oriented issues. Sterns (1995) argue that, most often the lenders are responsible for the high rate of loan delinquency in MFIs (Table 1).

Other studies focused on microfinance repayment performance (Godquin, 2004; Derban et al., 2005; Bhatt and Tang, 2002; Guttmann, 2007). Findings from these researchers proved that internal factors such as high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection were major causes of loan delinquency. Mersland and Strom (2008) postulated that, to minimize loan delinquency, most MFIs prefer to do group lending where their area of operations is rural, the gender in question are females and when the average loan amount is small. Research on the contribution of the individual customer as a major cause of MFIs loan delinquency has also been long documented. Sterns (1995) argued that a major cause of loan delinquency in MFIs is the customers’ unwillingness and inability to repay. The researcher also mentioned the importance of uncontrollable factors such as natural disasters and personal crises impacting loan repayment.

METHODOLOGY

Research Data

The paper used secondary data to descriptively analyse and present the situation of loan delinquency for 79 MFIs in Cameroon for the year 2009 following the 2008 subprime crises (best to review economic down turn and its effect from global crises). Part of this data was collected from Marche de Microfinance, and part from the external auditors and boards of these institutions. At this stage we are interested in total loan granted and the default loans of 79 MFIs selected based on regional and categorization criteria. Questionnaires were randomly distributed to regional assemblies of microfinance managers, microfinance consultants, loan managers, loan officers and lawyers.

An aggregate ratio of loan delinquency to total loan granted for the year is computed and the rate in percentage is studied. The loan delinquency rate for this year for the sample institutions will be calculated and used as an argument to back our quest to search for the root cause of L.D. This descriptive approach is coherence to the methodology adopted by Bichanga and Aseyo (2013), Huka and Nguta (2013), Karankye (2014) and
Table 1. Summary of Literature review.

<table>
<thead>
<tr>
<th>Researcher(s)</th>
<th>Purpose</th>
<th>Methods</th>
<th>Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lama (2013)</td>
<td>Assess MFIs performance</td>
<td>CAMEL indicators</td>
<td>Findings portray differences in return and risk</td>
</tr>
<tr>
<td>Nawai and Shariff (2012)</td>
<td>Factors affecting performance of microfinance programs in Malaysia</td>
<td>Multinomial Logit regression model</td>
<td>Found out that, there are ten factors affecting the repayment of borrowers namely age, gender, religious education, distance to the lenders office, loan monitoring, period of loan approval.</td>
</tr>
<tr>
<td>Kondongo and Kendi (2013)</td>
<td>Individual lending versus Group lending: An evaluation with Kenya’s microfinance data.</td>
<td>Logistic regression</td>
<td>High interest rates significantly increase the odds of client delinquency while loan size is inversely related to delinquency.</td>
</tr>
<tr>
<td>Huta and Nguta (2013)</td>
<td>Factors Influencing Loan Repayment Default in Micro-Finance Institutions: The Experience of Imenti North District, Kenya</td>
<td>Structured &amp; unstructured questionnaires were analyzed using descriptive and inferential statistics.</td>
<td>The study concluded that, there various factors influencing non-repayment of loans which could arise from businesses characteristics. These factors included type of business, age of the business, number of employees and business profit.</td>
</tr>
<tr>
<td>Kalui and Mania (2014)</td>
<td>Assessing Institutional Factors Contributing To Loan Defaulting In Microfinance Institutions in Kenya</td>
<td>The data was collected through a structured questionnaire and administered to MFIs loan officers for response. Multiple regression analysis</td>
<td>The findings indicated that all the three factors tested had a significant impact on the loan default rate, credit policies, loan recovery procedures, and initial loan appraisal</td>
</tr>
<tr>
<td>Hadi and Kamaluddin (2015)</td>
<td>Examine the social collateral model for Malaysia MFIs.</td>
<td>Reviewed the social collateral model</td>
<td>Social collateral model is an effective system for assessing borrowers and improving on repayments</td>
</tr>
</tbody>
</table>

Kalui and Mania (2014). Once loan delinquency and its adverse effect on MFI is reviewed critically through the secondary and descriptive approach, we settle to the foci point of our study analyzing the root cause of loan delinquency. Certainly the criterion variable is loan delinquency while the predictors are legislation issues contagion effect, and economic down turn. We approach the empirical investigation section to causes of loan delinquency through primary data collection (use of survey and/or questionnaire). Matrix questions with three Likert questions were developed per variable except for economic downturn with two questions. These are administered randomly to an assembly of MFI managers, branch managers, loan officers and some to specialize MFI lawyers and follow up made through emails. A 5-Likert scale was adopted to obtain these findings. This does not oppose the view of the above reviewed early publications. The average scores per variable and for each respondent were computed. The average scores per construct were gotten for the 416 respondents and used to run the regression.

**Research model**

The data obtained from the survey questions is reviewed descriptively to calculate a percentage for each of the construct. Through this, we classify and justify the identified external causes. In addition, the degree of significance of each of these factors is determined through a multiple regressions. The regression equation model is:

\[
L.D = \alpha + L.I(\beta_1) + C.E(\beta_2) + E.D.T(\beta_3) + \varepsilon
\]

Where \( \alpha \) = The intercept (constant); \( L.D \) = Loan Delinquency; \( L.I \) = Legislation Issues; \( C.E \) = Contagion Effect; \( E.D.T \) = Economic Down Turn; \( \varepsilon \) = error term and \( \beta_1, \beta_2, \) and \( \beta_3 \) are the coefficient of \( L.I, C.E \) and \( E.D.T \), respectively. The result obtains through software applications (SPSS, SAS and AMOS) are used to test the following
Table 2. Consolidated data for 79 Class 1 MFIs Credit, LD, and Bad Debt Position.

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of MFI</td>
<td>79</td>
</tr>
<tr>
<td>Total number of unpaid loans</td>
<td>2131</td>
</tr>
<tr>
<td>Total loan granted</td>
<td>10271990033</td>
</tr>
<tr>
<td>Total delinquent loan</td>
<td>1896735383</td>
</tr>
<tr>
<td>Bad debt</td>
<td>964937357</td>
</tr>
<tr>
<td>Rate of delinquency</td>
<td>18.82%</td>
</tr>
<tr>
<td>Rate of bad debt</td>
<td>9.39%</td>
</tr>
</tbody>
</table>

Source: External Auditors, ADAF and CAMCCUL 2009 Audited Financial statements in FCFA.

**Hypothesis**

**Hypothesis**

\( H_{0a} \): Legislation issue (weak legislation) does not have a significant positive relationship with loan delinquency in MFI.

\( H_{0b} \): Contagion effect does not have a significant positive relationship to loan delinquency in MFI.

\( H_{0c} \): Economic down turn does not have a significant contribution to loan delinquency in MFI.

Statistical indicators/figures used in test of hypothesis and result interpretation are:

- (a) \( R^2 \) (Coefficient of determination): This statistical figure reviews the extent to which the dependent variable is explained by the independent variable. This figure was certainly not captured by Warue (2012). However, this is reviewed in our paper and used to support the strength of our research model.

- (b) \( \beta \) (Beta or factor loadings): In our case we have beta 1, 2 and 3. The sign of the coefficient of each of these variables (beta) provide the research with a particular interpretation and guide the recommendation. Negative sign shows an inverse relationship between L.D and the specific construct while positive sign indicate a positive relationship. A coefficient of these variables which is different from Zero reviews a relationship without which symbolized no relationship, and the value expresses the extent to which the changes in the independent variables affects L.D.

- (c) Durbin-Watson: The measure of errors (errors estimate) or residuals.

- (d) P- Value and t-value: We assume a p-value of 0.05 (95%) confidence interval. With this the significant level will be obtained and justified.

- (e) Tolerance and VIF (Variance inflation factor) measure of collinearity/ multicollinearity: Our methodology tried to breach the gap in approaches used by authors in similar area of study. Most of the research focuses on primary data and descriptive statistics; however some used primary data and implement multiple regressions. We make use of both primary and secondary data, descriptive analysis and regression statistics. We add to key used figure of beta, the coefficient of determination \( (R^2) \), error estimate/residual (Durbin-Watson) and tolerance. And t-statistic (t-value) is finally used to test the hypothesis.

- (f) Three questions were asked per variables: The data was classified and tabulated after ensuring that it was carefully checked for completeness and consistency of information collated. The average scores per variable and for each of the respondents were computed. Average scores per construct were gotten for the 416 respondents and used to run the regression.

**RESULTS**

Secondary data reviewed the loan delinquency and bad debt of studied MFIs. This is reviewed in Table 2. The sum of LD and bad debt for 2009 following the global subprime crises for which Cameroon was not an exception stood at 28.21% of total loan granted. In the year 2009, the total loan of FCFA10.2 billion was granted by the 79 sampled institutions with an outstanding 18.82% loan delinquency rate (ratio of loan due and not paid to total loan granted). The situation if left unchecked will result in a situation where poor savers are pushed further into the poverty trap. This justify the number of research on the causes of MFIs LD. Majority of studies on LD are focused on analyzing how internal variables affects LD, however, in this study we look at the root cause as attention is shifted on external variables.

Senior management, branch managers, credit officers, MFIs lawyers, project managers, internal and external auditors of MFIs were questioned on the degree of influence of external variables such as Legislation Issues (LI), Contagion Effect (CE) and Economic Down Turn (EDT) on Loan Delinquency (LD). These variables are not
Table 3. Percentage Responds Per Construct.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Total Respondents</th>
<th>Total score</th>
<th>Average score</th>
<th>Percentage score (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LD</td>
<td>416</td>
<td>2080</td>
<td>1959.00</td>
<td>94.18</td>
</tr>
<tr>
<td>LI</td>
<td>416</td>
<td>2080</td>
<td>1664.33</td>
<td>80.01</td>
</tr>
<tr>
<td>CE</td>
<td>416</td>
<td>2080</td>
<td>1934.00</td>
<td>92.98</td>
</tr>
<tr>
<td>EDT</td>
<td>416</td>
<td>2080</td>
<td>1767.00</td>
<td>84.95</td>
</tr>
</tbody>
</table>

Source: Computed from Survey and Regression January 2016.

Table 4. Descriptive Statistics.

<table>
<thead>
<tr>
<th>Construct</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>LD</td>
<td>416</td>
<td>2</td>
<td>5</td>
<td>4.71</td>
<td>0.55</td>
</tr>
<tr>
<td>EDT</td>
<td>416</td>
<td>1</td>
<td>5</td>
<td>4.36</td>
<td>1.20</td>
</tr>
<tr>
<td>LI</td>
<td>416</td>
<td>2</td>
<td>5</td>
<td>4.01</td>
<td>0.64</td>
</tr>
<tr>
<td>CE</td>
<td>416</td>
<td>3</td>
<td>5</td>
<td>4.65</td>
<td>0.37</td>
</tr>
</tbody>
</table>

Source: Computed from Survey Results January 2016.

directly related to internal variables such as management competent and mismanagement. The 416 respondents were highly unbiased. 94.18% of sample size recognized LD as a cankerworm in MFIs in Cameroon. Thus, a good solution package to LD issue will be a good antidote to counter the negative image of MFIs.

A score of 1664.33 out of 2080 total score accepted that LI is one of the root causes of LD in Cameroon MFIs. 92.98% respondent score supported CE making it the highest external predictor to LD as per descriptive statistic. And 84.95% score was obtained supporting EDT. Table 4 of the descriptive statistics shows, on a scale of 5, all the studied variables have a mean score above 4 with LD highest of 4.71 and LI issue lowest of 4.01.

Table 4 reviews indicate the risk of deviation from the mean value is very minimal per construct. However EDT records the highest standard deviation (1.20) while the least of standard deviation is 0.37 (CE). Base on descriptive result, we need to hold our breadth not to be easily pushed to a fallacy of hasty generalization to view LI, CE, and EDT of same magnitude to the root cause of LD. It can be viewed from Table 3 that descriptively CE records a higher percentage (92.98%) and may be misleading to conclude that CE is the most significant of the construct to LD. Going through sum of least square regression analysis, a more valid and different picture of the influence of these factors to LD is portrayed.

In this study, the regression result singles out amongst the three studied variables Legislation issues as the root cause to loan delinquency. This is consistent with the findings of Fofack (2005) study that examined how external variables such as real interest rate, real exchange rate appreciation and net interest margin affect LD. Fofack (2005) found a similar view to EDT sign of coefficient to our study and confirmed that macroeconomic stability and growth leads to lower level of loan defaults whereas depression moment where interest margins falls and lower perming economic activities is associated with high nonperforming loans.

Results of the regression indicate negative relationship between economic condition and loan delinquency. Although the EDT is statistically insignificant (beta coefficient of -0.04 and t-value of -0.82) but the sign of the coefficient confirm Fofack (2005) study. That is, as an economy recover (economic activities become more active), borrowers from MFIs ability to fulfill their obligations increase therefore low LD. Warue (2012) study’s notice external factors were insignificant but however records a positive beta coefficient.

Equally based on the result (Table 5), CE is statistically insignificant though with a positive beta coefficient (beta of 0.07 and a t-value of 1.5). The sign indicate that news of closure of an MFI and other financial institution increase the repayment unwillingness of customers. This is quite true in Cameroon on microfinance sector that suffer from persistence collapse of an MFI. From descriptive analysis result, all the three variables contribute greatly to LD but the regression result identify multicollinearity among the variables. Although CE and EDT have an effect on LD, they are not the root cause.

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Table 5. Régression Coefficients.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Beta</th>
<th>t-value</th>
<th>Sig</th>
<th>Tolerance</th>
</tr>
</thead>
<tbody>
<tr>
<td>LI</td>
<td>0.22</td>
<td>4.49</td>
<td>0.00</td>
<td>0.96</td>
</tr>
<tr>
<td>CE</td>
<td>0.07</td>
<td>1.5</td>
<td>0.13</td>
<td>0.96</td>
</tr>
<tr>
<td>EDT</td>
<td>-0.04</td>
<td>-0.82</td>
<td>0.42</td>
<td>0.99</td>
</tr>
<tr>
<td>Alpha</td>
<td>3.58</td>
<td>9.22</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

R-square 0.31
Durbin-Watson 0.93

Dependent Variable: LD; Predictors: LI, CE, EDT.

repayment ability and willingness of borrowers.

Regression Equation

\[ L.D = 3.58 + L.I(0.22) + C.E(0.07) - E.D.T(0.04) + \epsilon \]

The result of the coefficient of determination realized for the regression stood at 31%. That is, 31% of loan delinquency in microfinance institutions in Cameroon is caused by legislation issues, contagion effect and economic downturn. This is true because other variables ranging from internal factors to natural factors once combine with external factors can add significantly to the explanatory power \( R^2 \) to loan delinquency. However, this study warrants a more specific study still on macro factors (external variables) to conduct an empirical investigation. Therefore, although with this limitation associated with \( R^2 \), the goal of the study is achieved.

Our findings reject the null hypothesis a \( (H_{0a}) \), since we notice a statistical significant influence of LI on LD. The study suggests there is a positive relationship between LD and LI. However, we found no statistical evidence to reject the null hypothesis b and c \( (H_{0b} \) and \( H_{0c} \)). In this regards, we agree that within the Cameroon microfinance sector, LI is a major problem which once targeted will reduce or stimulate going sustainability of these institutions.

If this principle is kept, then contagion effect related to closure of MFIs will be reduced. However, it is important to notice here that EDT is a systematic risk factor that affects all economic activities within an economy. This must not be a key factor to loan delinquency that is also common even when economy is at boom. Also, since our descriptive statistics show a high percentage responds to all three variables, an appropriate guide will be to review the result of each of these variables with an in depth focus on legislation issues and its effects on LD.

As legislation issue is identified as the core external cause of loan delinquency, from previous study, lack of monitoring, high interest rates, poor loan appraisal and credit policy are recognized as the core of the internal variables for MFIs LD (Warue, 2012; Kalui and Maina, 2014; Korankye, 2014). Due to profit motive, MFIs are deviating from their original objective of poverty alleviation. This is what most researchers have referred to as mission drift. In this light we recognized two core cause of LD in Cameroonian MFIs. One internal recognized through reviewed and one external noticed from the empirical regression test of this paper. The other causes are basic and immediate causes stemming from these root causes. However, legislation issues remain the most contributing system factor associated to MFIs LD in the context in Cameroon. Improper supervision by the banking authorities, lack of control, contradictory laws governing the sector, and the bureaucratic nature of litigation processes couple with corrupt judiciary.

DISCUSSION

This study found out that, the alarming rate of LD in Cameroon MFIs is stimulated by two major variables: Weak legislation surrounding the operation of MFIs and the potential deviation from core objective that justify the creation of majority of these institutions. Our findings however adds to previous scholars and researchers who point out inappropriate loan policy, poor appraisal of client credit worthiness, agency problem, limited follow up once a loan is granted as major internal causes of LD. This study however showed that the internal causes as portrayed by other researchers are branches of a tree, while our findings depicts the tree trunk and roots for the case of Cameroon. In effect we are pointing out legislation issue as the “spinal cord” that must be broken. To the best of our knowledge, EDT and natural factors are categories under systematic risk. Therefore although should not be neglected it should not be preoccupation to governmental authorities, management and investors as contingency plan can be set aside to control if it occurs.

Here it is important to exemplify the legislative landscape of this sector. There are many MFIs in Cameroon that just go operational without registration. Neither the Ministry of Finance nor the Banking Commission is aware of their existence. It is evident in some cases; some of these phantom institutions can operate for two years without license. Most often, they only get noticed when they start suffering from liquidity
problems. Another legislation issue is poor and corrupt judiciary system regarding the operation of these institutions (Fokam, 2014). Borrowers sometimes believe that, by not fulfilling their obligations there is no judicial penalty and is very possible to spend 10% of the loan as bribe to judiciary officers and the judge will keep postponing the hearings. With this corrupt judiciary system, unjust borrowers take advantage even though their credit worthiness was accurately appraised and they are still able to pay (Fotabong and Akanga, 2005).

Conclusion and Recommendations

It is evident in the study that weak legislation is a strong factor contributing to MFIs LD in Cameroon. The study felt that in order to minimize the effect of external variables such as legislation on loan delinquency, legislative institutions procedures and processes needs to be made strong, visible, and judiciary personnel be more ethical. Since litigation issues most often are influenced by bribery and corruption, MFIs should consider temporal transfer of collateral of the client as at the time of loan disbursement. At the time of disbursement the beneficiary is made aware once two instalments are missed, collateral automatically becomes that of the institution. With this put in place, clients who have the ability to pay but are unwilling to pay, and took advantage of the weaker judiciary system will be forced to pay. The banking commission should make this as a requirement for clients/members borrowing more than certain amount. As a requirement, employees of the regulatory institution should become more visible, more active and should regularly monitor these MFIs so as to ensure safety of clients’ deposits and customers’ confidence. Injunction can be passed to stop further lending once delinquency rate get to a level. Also training of borrowers before and after receiving loans focusing on the ethical aspect of a bank and how the savings and lending functions are intertwined. Such measures will bring down the rate of defaulters.

In a typical class on MFIs where deposits and loans are only accepted and granted to members, the institution should consider zoning of the village or area. Residents in an area or village can be classified or grouped into various subgroups depending on the major and minor economic activities in the areas. At the point of joining therefore, a member is requested to join at no fee the subgroup or area where he or she shares a common feature. And although credit was contracted as an individual or group, members in the same zone will become influential during recovery. Interest rate per zone or subgroup again will depend on the repayment rate of group members, with the likelihood of the entire neighborhood losing because of several persons’ unwillingness to honor legal obligations. A very good ante-dote for those whose ability to pay is compromised by their unwillingness to pay will be for the general assembly to set a day aside in a month to pay a surprise visit to their homes or business places. The banking commission can assist through the legislation by signing an injunction to pay and confiscation of collaterals.

All illegal operating MFIs should always be searched and reported by other MFIs to the central authority. Registered MFIs should openly display their registration documents in their building and community members made aware of the need to request this document before joining. Stated legal actions should also be made clear over various news media, churches, the Cameroon Radio and Television. The banking commission with the help of MFIs stakeholders including micro finance lawyers and experts can form a judiciary committee to immediately assist once consulted in the loan recovery process. This committee should also make itself readily available to MFIs management once consulted for help.

Similarly a central emergency fund should be created and made compulsory for all MFIs to contribute a percentage which should be a function of their growing balance sheet. This will help weather for systematic risk (natural factors and economic down turn) that may affect borrowers in this sector. In this case, in a situation where default emerges due to these uncontrollable factors, such funds could be used to keep troubled institutions rolling. Though such funds currently exist in the form of solidarity funds, the role of the oversee body to keep checking its implementation is sometimes neglected.

In the midst of high loan delinquency in Cameroon’s microfinance sector, some MFIs have been able to make a difference. For example CCA, Advance Cameroon, EB-SL and some other MFIs so far have not been able to fall to the cracks of LD. In addition, the sector remains paramount, accounting for the banking activities for a majority of Cameroonians and is a life success to improve leaving standard to the population. To conclude, a welfare decision is worth taking if the sum of welfare benefits exceeds the welfare loss to the community. The Pareto( ) optimality equally state that at any one point, an optimal social decision point is reached where you cannot make some one better off without making another person worse up. But once the aggregate utility derived from an allocation or redistribution decision of the government exceeds the lost in satisfaction then the decision is deem worthy. In line with this welfare policy, we therefore suggest the government should be proactive and make the judiciary system more visible.

REFERENCES


